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FILED

JUN 15 1992

No. 91-1043

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**In the Supreme Court of the United States**

**OCTOBER TERM, 1991**

**PROFESSIONAL REAL ESTATE INVESTORS, INC., ET AL.,  
PETITIONERS**

**v.**

**COLUMBIA PICTURES INDUSTRIES, INC., ET AL.,  
RESPONDENTS**

**On Writ of Certiorari to the  
United States Court of Appeals  
for the Ninth Circuit**

**BRIEF FOR THE RESPONDENTS**

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## QUESTION PRESENTED

Whether the prosecution of a lawsuit involving a pure question of law that was "brought with probable cause and presented issues that were difficult to resolve" (Pet. App. 15a) may subject a party to potential antitrust liability solely on the theory that the suit was not motivated by a desire to achieve a favorable judicial result and, therefore, constituted a "mere sham."

**PARTIES TO THE PROCEEDING AND  
RULE 29.1 STATEMENT**

In addition to the parties listed in the caption, Kenneth F. Irwin is a petitioner in this Court and Embassy Pictures; Paramount Pictures Corporation; Twentieth Century Fox Film Corporation; Universal City Studios, Inc.; Walt Disney Productions; Warner Bros. Inc.; and CBS Inc. are respondents in this Court. Respondents' parent corporations and non-wholly-owned subsidiaries are listed at pages ii to v of respondents' brief in opposition.

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## BRIEF FOR THE RESPONDENTS

## OPINIONS BELOW

The opinion of the court of appeals on the antitrust counterclaims (Pet. App. 1a-19a) is reported at 944 F.2d 1525. The judgment of the district court on the antitrust counterclaims (Pet. App. 20a-22a) is unreported; the court's opinion (Pet. App. 23a-25a) is unofficially reported at 1990-1991 Trade Cas. (CCH) ¶ 68,971. The opinion of the court of appeals (Pet. App. 26a-37a) on the copyright infringement claim is reported at 866 F.2d 278; the judgment and findings of the district court on that claim (Pet. App. 38a-50a) are unofficially reported at 228 U.S.P.Q. 743.

## JURISDICTION

The judgment of the court of appeals was entered on September 24, 1991. The petition for a writ of certiorari was filed on December 23, 1991, and was granted on

March 30, 1992. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

### STATEMENT

This case requires the Court to determine when the filing of a lawsuit may give rise to treble-damages liability under the antitrust laws. Petitioners assert that the governing standard turns *solely* on the antitrust defendant's subjective motive in instituting the lawsuit. They contend, therefore, that every antitrust plaintiff who asserts a claim based on the filing of a lawsuit must be permitted to engage in discovery.

The court of appeals held, correctly we submit, that the applicable standard has two elements, one objective and one subjective. Where the lawsuit in question was reasonably grounded in fact and law and involved no flagrant abuses in the litigation process, there is no need to inquire into subjective motivation: such an action cannot constitute a "mere sham" within the meaning of *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), and *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). Only when this objective test is not satisfied is it appropriate to investigate the subjective motivation of the party who filed the lawsuit.

The district court determined that respondents' copyright claim could not give rise to antitrust liability because it passed muster under the objective component of the sham standard. On appeal, petitioners pressed their different conception of the proper sham standard, but "d[id] not challenge" the district court's finding that respondents' copyright infringement claim was "brought with probable cause and presented issues that were difficult to resolve." Pet. App. 15a. The statement of the case contained in petitioners' brief in this Court, by contrast, appears designed largely to cast doubt on the legitimacy of the copyright claim. Petitioners' failure to dis-

pute this issue in the court below forecloses them from raising it here. *DeShaney v. Winnebago County Department of Social Services*, 489 U.S. 189, 195 n.2 (1989). Petitioners' multiple misstatements nevertheless compel us to discuss the history of this litigation in some detail.

### A. The Copyright Infringement Action

Respondents produce and distribute copyrighted motion pictures and television programs. Pet. App. 29a, 41a. They have in recent years instituted copyright infringement actions—the only means available to protect the rights conferred by the Copyright Act—in order to prevent erosion of their statutory rights by new technological developments. See, e.g., *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984); *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974); *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986); *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984). Not only copyright holders, but also the proponents of new technology, have sought the certain resolution of these difficult questions of statutory construction that only a judicial decision can provide. See, e.g., *On Command Video Corp. v. Columbia Pictures Industries*, 777 F. Supp. 787 (N.D. Cal. 1991) (declaratory judgment action instituted against respondents by party seeking to use copyrighted material).

Petitioners own and operate La Mancha Private Club and Villas, a resort in Palm Springs, California. Pet. App. 42a-43a. The La Mancha facility is "unquestionably open to the public." *Id.* at 43a (emphasis omitted). Beginning in late 1981, petitioners purchased videodiscs containing respondents' copyrighted movies and television programs and placed a videodisc player in each unit of their resort. "Guests at [petitioners'] resort could, for a fee ranging from \$5.00 to \$7.50, rent the videodiscs, take them back to their accommodations, and watch the movie

on the television[] sets and videodisc players furnished in each unit." *Id.* at 44a.

During the early 1980s, other businesses also employed video technology to profit from unlicensed on-premises performances of respondents' copyrighted films and programs. Some home video equipment store owners, for example, constructed private "viewing booths" in which patrons could—for a fee—view videocassettes of movies of their choosing. See *Aveco*, 800 F.2d at 61; *Redd Horne*, 749 F.2d at 156-157.

Respondents instituted the *Aveco* and *Redd Horne* copyright infringement actions against the video store owners and the current action against petitioners, all on the theory that the performances of the copyrighted works occurred "at a place open to the public" (17 U.S.C. § 101) and therefore infringed respondents' exclusive right "to perform the copyrighted work publicly." *Id.* § 106(4). Respondents prevailed in *Redd Horne* and *Aveco*. "The Copyright Act speaks of performances at a place open to the public," the *Aveco* court stated. 800 F.2d at 63. "A telephone booth, a taxi cab, and even a pay toilet are commonly regarded as 'open to the public,' even though they are usually occupied only by one party at a time." *Ibid.* Because the operators of the video stores were "willing to make a viewing room and video cassette available to any member of the public with the inclination to avail himself of this service," the individual viewing rooms within the stores were public places within the meaning of the Copyright Act. *Ibid.*; see also *Redd Horne*, 749 F.2d at 159.

The litigation of the copyright claim in the present case was unremarkable.<sup>1</sup> Respondents took only minimal dis-

<sup>1</sup> Petitioners imply (Br. 6-7) something sinister from the fact that, before filing suit, respondents sent a letter protesting what they viewed as petitioners' infringement of their legal rights. But there is nothing unusual in providing this courtesy before filing a lawsuit. The alternative would be to institute legal proceedings

covery—they obtained some documents and took a single deposition for two days. J.A. 116.<sup>2</sup> Ruling on cross-motions for summary judgment, the district court rejected the infringement claim. Pet. App. 45a.

The court of appeals affirmed. It stated that "[petitioners'] operation differs from those in *Aveco* and *Redd Horne* because its 'nature' is the providing of living accommodations and general hotel services, which may incidentally include the rental of videodiscs to interested guests for viewing in guest rooms." Pet. App. 32a-33a. "[T]he hotel may indeed be 'open to the public,'" the court stated, but "[t]he movies are viewed exclusively in

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without any opportunity for the prospective defendant to avoid litigation by agreeing to stop the offending practice or persuading the would-be copyright plaintiff that it is lawful.

<sup>2</sup> Attempting to create the false impression that litigation of the copyright claim was extremely burdensome, petitioners (Br. 8) refer to respondents' "insist[ence] upon litigating their copyright claim to the bitter end" and note that the issue took "six years to resolve." See also Br. 29 (copyright claim took "seven years" to resolve). In fact, the proceeding was not burdensome for petitioners. See J.A. 116 (parties' joint report that "there are probably few, if any, factual disputes" and case "revolves instead around a single issue of law"). The complaint was filed in April 1983; petitioners requested several extensions of time to pursue settlement discussions and filed their answer and antitrust counterclaims in February 1984. After further settlement negotiations (see J.A. 115-116), respondents filed their reply to the counterclaims in August 1984. The parties then engaged in discovery relating to the copyright claim. Respondents' motion for summary judgment was filed in September 1985; petitioners' summary judgment motion was filed in October 1985; and the district court issued its ruling in December 1985. Respondents appealed in January 1986, and the court of appeals issued its ruling three years later in January 1989. (The case was reargued due to changes in the composition of the panel. See Pet. App. 27a-28a n.\*.) The vast majority of the 69 months the claim was pending were thus consumed by settlement negotiations and the proceedings on appeal; in view of the limited discovery and the fact that the case was concluded by summary judgment, the actual litigation burden on petitioners was minimal.

guest rooms, places where individuals enjoy a substantial degree of privacy, not unlike their own homes." *Id.* at 33a.

The Ninth Circuit's ruling on respondents' copyright claim was and is controversial. According to one leading commentator, "hotel rooms should be considered public places for purposes of section 101." 1 P. Goldstein, *Copyright: Principles, Law and Practice* § 5.7.2.2, at 619 (1989).<sup>3</sup> In addition, another federal court of appeals has expressly "decline[d] to follow" the Ninth Circuit's decision, assuming without deciding that it may be inconsistent with *Redd Horne* and *Aveco* and agreeing with the latter decisions that the proper standard for determining whether a place is open to the public turns on "the nature of the place in which the private video booths are located, and whether it is a place where the public is openly invited." *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1020 (7th Cir.), cert. denied, 112 S. Ct. 181 (1991).

#### B. The Antitrust Counterclaims

Petitioners' answer to the copyright claim asserted counterclaims under Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1-2, and state law. It alleged that respondents conspired to monopolize and otherwise restrain trade in the "retail sale and rental of videodiscs" through several actions: "the filing of [the copyright infringement] suit, which is a sham and false and known by [respondents] to be so; bad faith prosecution of this suit; boycotting and concertedly refusing to grant licenses to defendants to rent videodiscs; and other activities." J.A. 38. Petitioners demanded treble damages under the antitrust

<sup>3</sup> See also 2 M. & D. Nimmer, *Nimmer on Copyright* § 8.14[C], at 8-170 to 8-173 (1992) (suggesting that *Redd Horne* and *Aveco* were correctly decided and that, even if the line drawn by the Ninth Circuit properly distinguished those cases, respondents should have prevailed on their copyright claim on a different ground).

laws and \$10 million in punitive damages under state law. J.A. 45-47.<sup>4</sup>

After ruling on the copyright infringement claim, the district court stayed proceedings on the antitrust counterclaims pending the court of appeals' disposition of the copyright issue. J.A. 489-490.<sup>5</sup> Following the court of

<sup>4</sup> Petitioners sought extensive discovery relating to their counterclaims. Each respondent was served with an identical document, demand seeking, among other things, all communications between each of the respondents and "any other person or persons concerning any and all licensing and rental agreements for videodiscs and videotapes"; any documents relating to "any policy" of respondents "or any other person or persons regarding the licensing of, authorization of, or restrictions to be imposed on the resale or rental of videodiscs or videotapes"; all documents relating to "any meeting or communication" between each respondent and "any other person or persons with respect to any proposed, suggested, or recommended policy, action, or discussion concerning the sale or rental of videodiscs or videotapes by or to any person or persons"; and "[a]ny and all documents submitted to, received from, filed with, or issued by the Motion Picture Association of America, Inc., or any other trade association or similar business association" that relate to "the sale or rental of videodiscs or videotapes by or to any person or persons." Finally, all of these requests for production of documents extended to respondents' "directors, officers, employees, representatives, agents and attorneys, and any predecessor, successor, parent, subsidiary and affiliate, whether in the United States or foreign" (emphasis added). Appellees' C.A. Br. App. 202, 206-208.

<sup>5</sup> Petitioners try to create the false impression (Br. 9) that the district court ignored their motions to compel discovery. The court held a hearing on petitioners' first motion, at which respondents' counsel explained that the portions of the discovery demands relating to the antitrust counterclaims were extremely burdensome. 9/18/85 Tr. 14-15. Respondents previously had filed a declaration explaining that it could take 4 months and cost approximately \$2.3 million to comply with petitioners' discovery requests. J.A. 190-191. The district court, observing that petitioners had "expressed a willingness to carve down your antitrust demands, presumably, rather substantially," directed the parties to try to reach agreement on the discovery issues. 9/18/85 Tr. 16. The court also held a hearing on petitioners' second motion to compel. The court denied the

appeals' copyright decision, respondents filed a motion for summary judgment. The district court granted the motion and dismissed petitioners' antitrust claims. The court recognized that, under *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961), the filing and prosecution of a lawsuit generally may not serve as a basis for antitrust liability. Only litigation that is a "sham" is exempted from this protection. Pet. App. 23a. The district court stated that the copyright claim was not a sham because "there was probable cause for bringing the action" and, indeed, it raised issues that were "far from easy to resolve." *Id.* at 24a.<sup>6</sup>

The court of appeals affirmed. It first considered petitioners' allegations of anticompetitive conduct other than the filing of the copyright action. On the claim that respondents refused to grant licenses to petitioners after commencement of the infringement action, the court stated that petitioners' "request for licensing amounted to an offer to settle the lawsuit" because, if respondents had agreed to issue licenses, the litigation would have been moot. Pet. App. 8a-9a. The court determined that "[a] decision to accept or reject an offer of settlement is

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motion, saying, "the discovery sought by the defendants is much too broad and \* \* \* the parties and the court can consider the discovery requested by the defendants in light of what the Ninth Circuit does" on the copyright claim. 3/24/86 Tr. 4; see also J.A. 489-490.

<sup>6</sup> Petitioners intimate (Br. 9-10 & n.5) that the district court somehow changed course by ordering discovery on the counterclaims and later granting respondents' motion for summary judgment before discovery was completed. But the district court established a discovery schedule before respondents filed their motion for summary judgment, and therefore before considering whether respondents were entitled to prevail as a matter of law. In granting the motion, the court expressly held that petitioners were not entitled to discovery. Pet. App. 24a; see also *id.* at 17a-18a (court of appeals rejected petitioners' contention that the district court did not address petitioners' request for discovery).

conduct incidental to the prosecution of the suit"; whether this litigation-related activity could be a basis for liability therefore depended on whether the copyright suit was a mere sham actionable under the antitrust laws. *Id.* at 9a.

With respect to petitioners' other unsubstantiated allegations—concerning threatened copyright actions against other hotels, restrictive distribution agreements, misleading warning labels, and threatening advertisements in hotel trade journals—the court held that petitioners

failed to demonstrate that the alleged conduct caused antitrust injury. [Petitioners] neither pleaded nor presented evidence that the La Mancha Resort's videodisc rental service had been interrupted, that the Resort lost a single guest, or that [respondents'] conduct prevented [petitioners] from marketing the Resort's video viewing system to other hotels.

Pet. App. 9a (citation omitted).<sup>7</sup>

Next, the court turned to the question whether the copyright litigation constituted a mere sham. It held that "an antitrust plaintiff must make a two-part showing to support a finding of sham: (1) that the suit is baseless—a legal question; and (2) that the suit was brought as part of an anticompetitive plan external to the underlying litigation—a question of fact." Pet. App. 15a-16a (citation omitted).<sup>8</sup> The court stated that,

[i]n the present case, [respondent's] copyright infringement suit presented an issue of first impression both at the district court level and in this cir-

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<sup>7</sup> The court observed that petitioners "did not need formal discovery procedures" to obtain proof that they themselves had suffered injury as a result of this conduct. Pet. App. 9a.

<sup>8</sup> The court also stated that proof that a lawsuit involved misrepresentations would satisfy the objective component of the sham test, but observed that petitioners made no such allegation in this case. Pet. App. 11a.

cuit. The first amendment right of petition is particularly strong in such a case. The district court concluded that the lawsuit was brought with probable cause and presented issues that were difficult to resolve. This finding, which [petitioners] do[] not challenge, precludes the application of the sham exception as a matter of law.

*Id.* at 15a (footnote omitted).

The court of appeals rejected petitioners' contention that, notwithstanding the objective reasonableness of the copyright claim, "the copyright infringement lawsuit is a sham because [respondents] did not honestly believe that the infringement claim was meritorious." Pet. App. 11a. Citing the "chilling effect on those who seek redress in the courts," the court held that it would "erode the first amendment right to petition that is the basis for the *Noerr-Pennington* doctrine" to "hold[] that a suit brought with probable cause in fact and law may be a sham." *Id.* at 14a-15a (emphasis omitted).

Finally, the court of appeals held that the district court had properly determined that petitioners were not entitled to discovery before entry of summary judgment. "[E]vidence of [respondents'] subjective intent was relevant only if it was shown that the copyright infringement action was baseless." Pet. App. 18a. Because the copyright action was well grounded, and the claim of sham therefore could not prevail, "[petitioners'] discovery of [respondents'] subjective intent would not raise an issue of material fact sufficient to preclude the entry of summary judgment." *Ibid.*

## SUMMARY OF ARGUMENT

The only issue before this Court is whether respondents' copyright lawsuit constituted a "mere sham" within the meaning of *Noerr*, 365 U.S. at 144. Respondents' attempts to revive other accusations of anticompetitive conduct, which the Ninth Circuit rejected and which were not the subject of the certiorari petition or grant, are not germane to the question this Court must decide. Because the lower courts properly concluded that the copyright suit had objective merit, the suit was not a sham.

The standard for determining whether a lawsuit is a "mere sham" has both objective and subjective components, as the Ninth Circuit correctly held. When the objective component is not met—when the lawsuit in question was well grounded and there was no flagrant abuse of the litigation process—establishing the subjective component of the test could not possibly lead to a finding of "mere sham," and it is pointless to permit discovery or other inquiry into subjective motive. Petitioners' contrary position—that there must be discovery, an inquiry into subjective motive, and apparently a jury determination in every case—is inconsistent with both precedent and the underlying policies of the *Noerr* doctrine and its "mere sham" exception.

*Noerr* rests principally on the proposition that the Sherman Act simply does not reach political activity. First Amendment considerations as well as other tools of statutory construction impelled the Court to that holding, but in the end *Noerr* rested squarely on interpretation of the statute. *Noerr* defines the area of protected activities in expansive terms, with only a narrow exception for "mere shams." This Court has never held that only activities squarely protected by the First Amendment are beyond the reach of the Sherman Act.

In the litigation context, there are several reasons to maintain as the standard for identifying "mere sham[s]" proof by the antitrust plaintiff of both objective and

subjective components. First, there is no reason to depart from what this Court has already said. In *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973), for example, the Court summarized its prior cases as condemning only "repetitive lawsuits carrying the hallmark of insubstantial claims." *Id.* at 380 (emphasis added); see also *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S. Ct. 1344, 1354 (1991) ("frivolous objections").

Second, the considerations underlying *Noerr* require an objective element as part of the sham inquiry. Again, the Court has already said this. In *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731 (1983), the Court, although construing a different statute (the National Labor Relations Act), relied on exactly the same First Amendment considerations that it cited in *Noerr* and even drew directly on its antitrust decisions in fashioning a standard in the labor context. The Court concluded that a lawsuit can constitute an enjoined unfair labor practice *only* if it is "baseless," rejecting the Labor Board's contention that an improper subjective motivation is enough. Other First Amendment doctrines lead to the same conclusion. This Court consistently has interpreted the First Amendment to avoid any "chilling effect" on protected activity; it has for the same reason narrowly construed federal statutes that touch on First Amendment concerns. The need to avoid a chilling effect is especially significant in the antitrust context, where treble damages and intrusive discovery could easily deter the bringing of lawsuits that should be brought. Imposing a threshold objective criterion serves the goal of not chilling desirable activities.

There are also immense practical problems with a purely subjective test. Such a test turns on the "intent" of corporate actors, an inquiry that is difficult and uncertain at best. In related areas of antitrust law—such as monopolization and predatory pricing—courts have consistently condemned intent-based tests, and a *purely*

intent-based test is similarly improper in this context. Such a test also would invite massive discovery abuses, as petitioners' discovery efforts in this case illustrate all too well. This Court often takes account of the potential for such abuse when it fashions substantive liability rules. See, e.g., *Harlow v. Fitzgerald*, 457 U.S. 800, 817 (1982); *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 741 (1975).

Analogies to the common law also support a standard with an objective component. The tort of malicious prosecution, for example, requires a lawsuit brought without probable cause; improper motive is not enough. The abuse-of-process tort likewise requires an improper act as well as an ulterior purpose. The snippets from lower court decisions on which petitioners rely as a substitute for analysis of *Noerr* and its underlying policies cannot overcome these many reasons for recognizing an objective component to the "mere sham" standard.

In a case such as this one involving no misrepresentations or other litigation abuses, the objective component requires the antitrust plaintiff to prove that the original lawsuit was baseless. Petitioners do not truly contend otherwise; rather, they deny that *any* objective component exists. This standard is a proper prerequisite for finding a "mere sham" because it comports with both this Court's cases and the views of leading commentators on the *Noerr* doctrine itself. See *Bill Johnson's*, 461 U.S. at 743; *Harlow v. Fitzgerald*, 457 U.S. at 817-819; P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 203.1e (Supp. 1991); Handler & De Sevo, *The Noerr Doctrine and Its Sham Exception*, 6 Cardozo L. Rev. 1, 30-31, 40, 52-53, 55 (1984); Balmer, *Sham Litigation and the Antitrust Laws*, 29 Buffalo L. Rev. 39, 56, 68 (1980); R. Bork, *The Antitrust Paradox* 358-359 (1978).

## ARGUMENT

### RESPONDENTS' COPYRIGHT INFRINGEMENT ACTION WAS NOT A "MERE SHAM"

This Court has made clear that litigation and other attempts to influence government action generally may not serve as a basis for antitrust liability. *Eastern Railroad Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961). The Sherman Act applies only if what appears to be an attempt to influence government is "a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor." *Id.* at 144. The lower courts correctly concluded that respondents' copyright claim was not a sham.

The certiorari petition in this case presented a single question: "[w]hether the Ninth Circuit misconstrued the sham exception to the *Noerr-Pennington* doctrine." Pet. i. At several points in their brief, however, petitioners address the court of appeals' unrelated determinations that petitioners could not support their antitrust claims on grounds *other than* the filing of the copyright infringement action—the alleged refusal to license petitioners (*i.e.*, the refusal to settle this case on the terms demanded by petitioners), the purportedly restrictive licensing agreements and overbroad copyright warnings, and other allegations. See, *e.g.*, Br. 14, 29-30, 31-32. Petitioners did not seek review of the court of appeals' rejection of these claims. Petitioners accordingly may not seek to rehabilitate those claims in this Court. *E.g.*, *Yee v. City of Escondido*, 112 S. Ct. 1522, 1532-1534 (1992); see also *Wyatt v. Cole*, 60 U.S.L.W. 4383, 4386 (U.S. May 18, 1992). The sole question ~~here~~ is whether respondents' prosecution of the copyright lawsuit may be actionable under the antitrust laws even though the suit was reasonably grounded and was not accompanied by any abuses in the litigation process.

Petitioners' submission on that question is breathtaking in its simplicity. They contend that if the suit were "brought with indifference to its outcome" (Pet. Br. 13), it would be a mere sham *even if the antitrust defendant prevailed*. The applicability of the "mere sham" exception would turn solely on the antitrust defendant's subjective motive in instituting the lawsuit at issue. The corollary of petitioners' legal standard is that the antitrust plaintiff must in every case be permitted discovery on the question of the antitrust defendant's motivation in filing the lawsuit. See Pet. Br. 13. Even when, as in this case, the antitrust plaintiff has no objective evidence that the defendant acted with the motive alleged by petitioners, discovery must be permitted, petitioners assert, because the critical information regarding subjective motive is in the hands—and the mind—of the antitrust defendant.

Petitioners are wrong. Even when an inquiry into subjective motive is appropriate, petitioners' "indifference" standard would not apply. The proper inquiry is whether the defendant's prosecution of the lawsuit was "not genuinely aimed at procuring favorable government action' *at all*," but rather was designed solely "to disrupt [the antitrust plaintiff's] business relationships" through "the very process of [litigation]." *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S. Ct. 1344, 1354 (1991) (citation omitted; emphasis added); cf. *Noerr*, 365 U.S. at 143 (fact that lobbying campaign "was intended to and did in fact" directly injure antitrust plaintiffs "as an incidental effect of the \* \* \* campaign to influence governmental action" did not permit imposition of antitrust liability).

More fundamentally, petitioners' formulation of the legal standard is incorrect. The test for determining whether a lawsuit is a mere sham contains an objective and a subjective element, each of which must be satisfied. The courts below properly concluded (Pet. App. 15a)

that petitioners' claim of sham could not succeed because respondents' copyright claim was reasonably grounded in law and fact.<sup>9</sup>

<sup>9</sup> Petitioners try (Br. 11 n.6, 29 n.18) to create the impression that respondents must have been indifferent to the outcome of this case because Congress's actions and a statement in a brief filed by respondents in another case supposedly showed that respondents knew that their legal position could not prevail in this case. That contention is entirely without foundation. Both courts below, in their copyright and antitrust decisions, deemed the contention unworthy of mention—and for good reason.

First, petitioners assert (Br. 5-6 & n.4) that the Copyright Act's treatment of hotel rooms, together with Congress's failure to amend that law in particular respects, established that respondents could not prevail on their infringement claim. The provision of the Act (and related legislative history) on which petitioners rely (Br. 5-6) addresses an entirely unrelated issue—a hotel's retransmission of broadcast signals to guest rooms (see 17 U.S.C. § 111(a)(1)). That provision does not purport to define hotel rooms as "private" for any purpose and does not at all address the copyright issue in this case: whether hotel rooms are "open to the public" within the meaning of 17 U.S.C. § 101. The 1961 Register of Copyright reports and respondents' 1983 legislative proposal (Pet. Br. 6 & n.4) involved, respectively, the copyright holder's right to control private performances *in the home* and to share in revenues of retail rentals of videodiscs and videocassettes; neither has anything to do with whether a performance in a hotel room constitutes a public performance. See J.A. 589-592 (respondents' district court brief addressing these issues).

Second, petitioners claim (Br. 3-4 n.1) that respondents "admitted" in other litigation that hotel rooms were "private," citing as support a single sentence in respondents' district court reply brief in the *Aveco* litigation. That sentence, written in response to a parade of hypothetical examples advanced by the defendants in that case—only one of which involved a motel room—is not probative of any issue relevant here. To treat respondents' response to a hypothetical example as evidence that respondents "knew" they could not prevail in a separate copyright case, one would have to believe that respondents "knew" that the Ninth Circuit would reject a position that commentators and other courts support. See pages 4-6, *supra*. Again, neither court below found any of this "evidence" worthy of discussion at any point in this case.

#### A. The Sherman Act Does Not Reach Requests For Government Action Except In The Narrow Category Of "Mere Sham[s]."

This Court took as its "starting point" in *Noerr* that a violation of the Sherman Act may not be premised upon "attempts to influence the passage or enforcement of laws." 365 U.S. at 135. A contrary conclusion, the Court stated, "would impute to the Sherman Act a purpose to regulate, not business activity, but political activity, a purpose which would have no basis whatever in the legislative history of that Act." *Id.* at 137 (footnote omitted); see also *id.* at 141 (antitrust laws "not at all appropriate for application in the political arena"); *City of Columbia*, 111 S. Ct. at 1354 (same). "Secondly, and of at least equal significance, such a construction of the Sherman Act would raise important constitutional questions. The right of petition is one of the freedoms protected by the Bill of Rights, and we cannot, of course, lightly impute to Congress an intent to invade these freedoms." *Noerr*, 365 U.S. at 137-138.

The *Noerr* Court went on to define in expansive terms the class of activities excluded from the reach of the Sherman Act, rejecting each of the grounds on which the lower courts had distinguished the challenged conduct from legitimate political activity. That the defendants acted with an anticompetitive purpose was held irrelevant (365 U.S. at 139-140); that the challenged activities had "a commercial impact and involve[d] conduct that can be termed unethical" did not matter (*id.* at 141); and that "the [defendants'] campaign was intended to and did in fact injure the [plaintiffs] in their relationships with the public and with their customers [meant] no more than that the [plaintiffs] sustained some direct injury as an incidental effect of the [defendants'] campaign to influence governmental action," something that the Court deemed an "inevitable" effect of any attempt to influence legislation through a publicity campaign. *Id.* at 143.

The Court observed that "[t]here may be situations in which a publicity campaign, ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor and the application of the Sherman Act would be justified." 365 U.S. at 144. But it determined that "no attempt to interfere with business relationships in a manner proscribed by the Sherman Act" was present in that case. *Ibid.*

Later, in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972), the Court held that *Noerr*'s rationale applies equally to attempts to influence decisions of "courts, the third branch of Government." *Id.* at 510. "We conclude that it would be destructive of rights of association and of petition to hold that groups with common interests may not, without violating the antitrust laws, use the channels and procedures of \* \* \* courts to advocate their causes and points of views respecting resolution of their business and economic interests *vis-à-vis* their competitors." *Id.* at 510-511. The Court elaborated on *Noerr*'s reference to liability based on "a mere sham" (*id.* at 511) and, as we discuss in detail below (at 21), determined that the allegations in that case did state a claim on a sham theory.

Two fundamental points are clear from these decisions. First, the Court has defined the *Noerr* doctrine in extremely broad terms: "the federal antitrust laws \* \* \* do not regulate the conduct of private individuals in seeking anticompetitive action from the government." *City of Columbia*, 111 S. Ct. at 1354. The rule permitting the imposition of antitrust liability for a "mere sham" is a narrow exception to this general principle of *nonliability*.

Second, although First Amendment considerations strongly supported the Court's determination in *Noerr* (365 U.S. at 137-138), in the end the holding rested

squarely on *statutory interpretation*: the Sherman Act simply does not reach "political activity."<sup>10</sup> Petitioners repeatedly ignore the statutory underpinnings of *Noerr* and assert that conduct is not excluded from the Sherman Act under the *Noerr* doctrine unless the particular conduct is "immunized from government regulation by the First Amendment." Pet. Br. 26; see also *id.* at 27 n.15 (Court must find that "petitioning conduct is subject to constitutional protection" in order to hold that it is not a "sham"). That contention is inconsistent with the language of *Noerr* and with this Court's application of the *Noerr* principle. In *City of Columbia*, for example, the Court indicated that *Noerr* excludes from the scope of the Sherman Act even conduct, such as bribery, that plainly lacks constitutional protection. 111 S. Ct. at 1353, 1356.

Because this Court's task is to interpret the statute—and because this particular statute confers on the courts broad authority to devise appropriate legal standards (cf. *Business Electronics Corp. v. Sharp Electronics Corp.*, 485 U.S. 717, 732 (1988))—the Court has a much freer hand to fashion sensible rules than it would have if this case called for a resolution of the outer limits of Congress's power under the First Amendment. See *City of Columbia*, 111 S. Ct. at 1354-1356 (looking to policy considerations in determining scope of *Noerr* immunity).

<sup>10</sup> See, e.g., *Noerr*, 365 U.S. at 136 ("where a restraint upon trade or monopolization is the result of a valid governmental action, as opposed to private action, no violation of the Act can be made out"); *ibid.* ("the Sherman Act does not prohibit two or more persons from associating together in an attempt to persuade the legislature or the executive to take particular action with respect to a law that would produce a restraint or a monopoly"); *id.* at 138 ("the Sherman Act does not apply to \* \* \* mere solicitation of governmental action"); *id.* at 139 ("the Act does not apply to mere group solicitation of governmental action"); *ibid.* ("[w]e reject such a construction of the Act"); *id.* at 144 ("this has not been done by anything in the Sherman Act").

**B. The Standard For Determining Whether A Lawsuit Is A Sham Has Both Objective And Subjective Components.**

Petitioners argue that the *only* relevant standard for determining whether a lawsuit is a "mere sham" is "subjective intent," which plays a "paramount role." Pet. Br. 17. Objective factors, petitioners say, are merely "probative \* \* \* of the critical issue of the litigant's subjective intent in bringing the action." Pet. Br. 23. Thus, any lawsuit—regardless of its merit—may be a "mere sham," and even a prevailing party may be subjected to onerous discovery and the threat of treble-damages liability.

The court of appeals properly rejected petitioners' contention, holding that an antitrust plaintiff relying on a sham theory must satisfy an objective standard. Respected commentators agree: "[a]s a matter of principle, \* \* \* it seems wise policy to hold business actors to a standard of reasonable care in using governmental machinery." P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 203.1c, at 24 (Supp. 1991); see also R. Bork, *The Antitrust Paradox* 359 (1978) ("[r]egardless of intent, parties can be held liable only if they employ means of influencing governmental action that are themselves illegal or reprehensible"); Handler & De Sevo, *The Noerr Doctrine and Its Sham Exception*, 6 Cardozo L. Rev. 1, 30-31, 40 (1984) ("Noerr cannot be harmonized with a holding that nonbaseless claims can be classified as sham merely because their assertion rests upon an improper motive"). The relevant decisions of this Court and the policies underlying the *Noerr* doctrine strongly support that conclusion.

**1. This Court's Opinions Addressing The "Mere Sham" Exception Establish That Only Objectively Unreasonable Litigation May Be Subjected To Antitrust Scrutiny.**

This Court has said many times that a showing that the antitrust defendant had the subjective intent to harm

the antitrust plaintiff through the process of litigation is *necessary* before a court may deem that litigation a sham. Petitioners err, however, in asserting that this Court has said that such a showing is by itself *sufficient*. To the contrary, this Court has said several times that the "mere sham" exception to the *Noerr* doctrine encompasses litigation that was frivolous, baseless, insubstantial, lacking in probable cause, or otherwise *objectively* condemnable.

Justice Douglas's opinion for the Court in *California Motor Transport Co. v. Trucking Unlimited*, *supra*, was the first case to provide guidance on what the Court meant in *Noerr* by the words "mere sham." *California Motor Transport* addressed a situation wholly unlike this case: *repetitive* litigation designed to deny the adversary meaningful access to the courts. See 404 U.S. at 511, 512, 515. The opinion is nevertheless instructive as to the objective component of the "mere sham" exception in a litigation context. The Court set out a number of examples of the type of conduct that could constitute a sham, referring to objectively "unethical conduct in the setting of the adjudicatory process," such as "[p]erjury," "[u]se of a patent obtained by fraud," "bribery," or "[m]isrepresentations." *Id.* at 512-513. Most important, the Court stated that, in the absence of such misconduct, the sort of litigation conduct that constitutes a "mere sham" is "a pattern of baseless, repetitive claims" establishing that the "judicial processes have been abused." *Id.* at 513.

One need not guess whether the Court in that case was delineating the boundaries of the "mere sham" exception or just providing examples of "mere shams." The Court, again speaking through Justice Douglas, had the opportunity to address the same issue the very next Term in *Otter Tail Power Co. v. United States*, 410 U.S. 366 (1973). Vacating a district court opinion that had been decided without benefit of *California Motor Transport*, this Court remanded to the district court for a determination whether Otter Tail had engaged in "repeti-

tive lawsuits *carrying the hallmark of insubstantial claims.*" *Id.* at 380 (emphasis added). *Otter Tail* leaves no doubt that the Court reserved the pejorative label "mere sham"—and the antitrust consequences that flow from that label—for litigation with *objective* indicia of lack of substance. See also *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623, 644 (1977) (Blackmun, J., concurring) (adopting *Otter Tail* formulation).

The Court's two most recent decisions addressing the "mere sham" exception to the *Noerr* doctrine concern themselves primarily with the *subjective* component of that standard. *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, 486 U.S. 492, 500 n.4, 507-508 n.10 (1988); *City of Columbia v. Omni Outdoor Advertising, Inc.*, 111 S. Ct. at 1353-1356. Therefore, they largely fail to address the issue before the Court in this case, which is the existence and content of a further, necessary, *objective* component. Of course, the lack of emphasis in those cases on the objective component cannot fairly be read as meaning that the objective component does not exist—especially in the face of the recognition of that component in *California Motor Transport* and *Otter Tail*. Rather, the objective component simply was not the subject of the disputes before this Court.<sup>11</sup>

Even so, both *Allied* and *City of Columbia* lend further support to the decision below. Although no question regarding the scope of the "mere sham" exception was before the Court in *Allied*, the Court noted the exception in its opinion, emphasizing the need for "‘intelligible guidance’ to courts or litigants" (486 U.S. at 508 n.10), guidance that hardly will exist if objectively reasonable lawsuits are left in the hands of juries deconstruct-

<sup>11</sup> Cf. *Wilson v. Seiter*, 111 S. Ct. 2321, 2324 (1991) ("[o]ur holding in *Rhodes* turned on the objective component of an Eighth Amendment prison claim \* \* \*, and we did not consider the subjective component"); *California v. Hodari D.*, 111 S. Ct. 1547, 1551-1552 (1991) (prior decisions state "a necessary, but not a sufficient condition") (emphasis in original).

ing the subjective intent of collective actors. More pointedly, the Court in *City of Columbia* emphasized that "the filing of *frivolous* objections to the license application of a competitor" is the "classic example" of unprotected sham conduct. 111 S. Ct. at 1354 (emphasis added). The Court had no occasion to delineate the outer limits of the objective component of the sham exception, but the language it chose accords with its consistently expressed view that such a component *does* exist.

## 2. *The Considerations Underlying Noerr Require An Objective Component As The Threshold Element Of The Sham Inquiry.*

As the Ninth Circuit held (Pet. App. 16a), this Court has already determined that the *Noerr* doctrine demands proof that a lawsuit is objectively unreasonable before the suit may provide grounds for antitrust liability. In *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731 (1983), the question was whether the Labor Board could enjoin—as an unfair labor practice—the filing of a lawsuit. The Board asserted that it could issue an injunction upon proof that the suit was filed for a retaliatory motive. The Court held that improper motive alone was not sufficient: "[t]he filing and prosecution of a well-founded lawsuit may not be enjoined as an unfair labor practice, even if it would not have been commenced but for the plaintiff's desire to retaliate against the defendant for exercising rights protected by the Act." *Id.* at 743. The Board could act only if it determined that the lawsuit was "baseless." *Id.* at 743, 744. See also *id.* at 755 (Brennan, J., concurring) (only "frivolous lawsuits" may be enjoined).<sup>12</sup>

<sup>12</sup> The Court went on to state that, if the plaintiff ultimately prevails in the lawsuit in question, he "should also prevail before the Board, for the filing of a meritorious lawsuit, even for a retaliatory motive, is not an unfair labor practice." 461 U.S. at 747. In that context, too, the Court rejected application of the Board's standard based solely on subjective motive.

Although the precise question before the Court in *Bill Johnson's* involved the meaning of the National Labor Relations Act (NLRA), the decision nevertheless applies directly in the antitrust context because *the Court* drew on its understanding of the Sherman Act in interpreting the NLRA.<sup>13</sup> At the outset of its analysis, the Court observed that *California Motor Transport* had narrowly construed the Sherman Act in light of the "right of access to the courts" and stated that "[w]e should be sensitive to these First Amendment values in construing the NLRA in the present context." 461 U.S. at 741. After determining—on the basis of authorities discussing the application of the Sherman Act in the litigation context (*id.* at 743 & n.10)—that these First Amendment considerations did not extend to frivolous claims, the Court imported into the labor context the standard applicable under the antitrust laws:

Considerations analogous to these led us in the antitrust context to adopt the "mere sham" exception in *California Motor Transport* \* \* \*. We should follow a similar course under the NLRA. \* \* \* Therefore, we hold that it is an enjoined unfair labor practice to prosecute a *baseless* lawsuit with the intent of retaliating against an employee \* \* \*.

*Id.* at 744 (emphasis added). Because *Bill Johnson's* borrowed its requirement of an objective standard from

<sup>13</sup> In the first of a series of profound misstatements of the holding of *Bill Johnson's*, petitioners contend that this Court held "that a citizen's First Amendment right of access bars the NLRB from enjoining state court suits that are not legally baseless." Pet. Br. 19. The Court held nothing of the kind. *Bill Johnson's*, like *Noerr*, rests on *statutory interpretation* influenced by constitutional considerations. See 461 U.S. at 741 ("[w]e should be sensitive to these First Amendment values in *construing the NLRA* in the present context") (emphasis added); *id.* at 743 ("the Board's interpretation of the Act is untenable"); *id.* at 751-752 (Brennan, J., concurring) ("I do not suggest that a constitutional issue surfaces directly in this case. But \* \* \* [i]n construing how far the Act goes \* \* \* we have often sought guidance from basic constitutional norms \* \* \*").

the antitrust setting, there can be no doubt that the identical rule applies to claims under the antitrust laws. Proof that the lawsuit was objectively unreasonable is an indispensable element of the sham standard.<sup>14</sup>

Even if *Bill Johnson's* were disregarded, and the policy considerations underlying the *Noerr* doctrine evaluated afresh, the conclusion would be the same. All relevant considerations overwhelmingly favor applying an objective test to claims of sham litigation.

a. *Constitutional considerations.* The *Noerr* doctrine protects interests of a constitutional magnitude. The right to resolution of private disputes by an impartial tribunal is "among the most precious of the liberties safeguarded by the Bill of Rights." *United Mine Workers, District 12 v. Illinois State Bar Ass'n*, 389 U.S. 217, 222 (1967). See also *Omni Resource Development Corp. v. Conoco, Inc.*, 739 F.2d 1412, 1413 (9th Cir. 1984) (Kennedy, J.) ("[t]he fundamental right of petition to the courts lies at the center of a system designed to invite the resolution of private grievances and claims by an impartial tribunal").

<sup>14</sup> Confronted with *Bill Johnson's* and the strong support it lends to the holding below, petitioners have tried two different tactics. Originally, they argued that "*Bill Johnson's* cannot be imported wholesale into an antitrust setting." Pet. 14. Now abandoning that approach—as they must in light of the grounding of *Bill Johnson's* in this Court's antitrust decisions—petitioners tacitly acknowledge the relevance of *Bill Johnson's* (see Pet. Br. 18-19, 31) but then distort its holding. The Court did not hold that "[d]etermining the impropriety of a suit was \* \* \* a question of fact, rather than law," as petitioners claim (Pet. Br. 19). Rather, the Court emphasized the importance of affording the *plaintiff in the litigation alleged to be a sham* (the antitrust defendant) its right to a jury trial on contested questions of fact. 461 U.S. at 745. The Court did not even remotely suggest the alarming proposition for which petitioners contend—that whether the original lawsuit was a "mere sham" is an issue for the trier of fact (generally, a jury) in every antitrust case, no matter how well grounded the underlying lawsuit. See Pet. Br. 17, 27, 30-31.

The Court need not determine here whether the First Amendment *requires* that a party seeking to impose liability for the filing of a lawsuit satisfy some objective standard. The question is whether such a standard is necessary to fulfill *Noerr's* purpose of giving petitioning activity a "wide berth" to avoid any potential conflict with the Constitution. *Allied Tube*, 464 U.S. at 504.

In other First Amendment contexts, a standard turning solely on subjective motivation would be unthinkable—and clearly unconstitutional.<sup>15</sup> Speech of any kind, for example, may not result in tort liability solely upon proof that the speaker has a malicious motive; a further objective showing of falsity is required. *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 347 (1974); see also *Cox Broadcasting Corp. v. Cohn*, 420 U.S. 469, 499 (1975) (Powell, J., concurring) ("constitutional necessity of recognizing a defense of truth [is] implicit in" *Gertz*). A sham standard that permitted liability based solely on proof of improper motive would be constitutionally suspect. Cf. *Hustler Magazine, Inc. v. Falwell*, 485 U.S. 46 (1988); *Garrison v. Louisiana*, 379 U.S. 64, 72-73 (1964).

Even if an entirely subjective standard were not objectionable on the ground that it directly burdened core conduct protected by the First Amendment, such a test would be constitutionally problematic because it would chill such conduct. The Court has consistently recognized that there must be "breathing space" around the borders of a protected right (*NAACP v. Button*, 371 U.S. 415, 433 (1963)), or the threat of liability will deter constitutionally protected conduct by forcing the careful citizen to "'steer far wider of the unlawful zone.'" *New York Times Co. v. Sullivan*, 376 U.S. 254, 279 (1964) (quoting *Speiser v. Randall*, 357 U.S. 513, 526 (1958)). It has for that reason held, for example, that the Free Speech

<sup>15</sup> Cf. *Scott v. United States*, 436 U.S. 128, 136 (1978) (in the Fourth Amendment context "[s]ubjective intent alone \* \* \* does not make otherwise lawful conduct illegal or unconstitutional").

Clause reaches beyond directly protected conduct—truthful speech—to bar liability for the making of even a false statement without fault. See *Gertz*, 418 U.S. at 340-341. Cf. *Bill Johnson's*, 461 U.S. at 741 (construing NLRA narrowly to avoid chilling protected conduct).

Moreover, the prospect of incurring damages that go "further than compensation for actual injury" is likely to have an enhanced chilling effect; the Court has for that reason held that the Constitution requires heightened protection against the imposition of such liability for constitutionally protected conduct. *Gertz*, 418 U.S. at 349 (punitive damages). Application of the Sherman Act in the area of constitutionally protected activity triggers this concern because antitrust plaintiffs may win treble damages and attorneys' fees. Cf. Baumol & Ordover, *Use of Antitrust to Subvert Competition*, 28 J.L. & Econ. 247, 252-254, 263-265 (1985); Easterbrook, *The Limits of Antitrust*, 63 Tex. L. Rev. 1, 33-34 (1984).<sup>16</sup> The Sherman Act's extraordinary remedies thus carry with them the need for careful judicial circumscription of the conduct proscribed by the statute. See Baumol & Ordover, *supra*, 28 J.L. & Econ. at 255-256.

Petitioners' wholly subjective standard would dramatically increase the chill on legitimate suits by making it impossible for prospective plaintiffs to determine in advance whether the filing of a particular claim could give rise to the burdens of defending, and even losing, an antitrust claim. A party whose motive was wholly legitimate, and who therefore would in theory be protected under an intent standard, would still have to take into account the possibility of an antitrust claim, with its attendant discovery and possible erroneous imposition of supra-compensatory liability, in deciding whether to file its lawsuit in the first place. Certainly there could be

<sup>16</sup> For that reason, overly broad application of the Sherman Act would chill legitimate litigation far more than could the traditional tort remedies (abuse of process and malicious prosecution) aimed at misuse of the judicial process.

no guarantee that an antitrust claim could be defeated on the merits. The outcome would be impossible to predict because the entire case would turn on a jury's assessment of motive, an enterprise that is "hazardous and of doubtful utility in most cases." P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1c, at 24.

Although the party contemplating filing the initial lawsuit would be unable to determine whether he might ultimately be subjected to treble-damages liability for the filing of his lawsuit, one consequence of an antitrust claim would be all too easy to predict: that party would be subjected to extensive discovery. Under petitioners' approach, discovery must be permitted in every case in which a claim of sham is asserted and, as this case well illustrates, that discovery may be extremely burdensome. Petitioners sought to impose on respondents the cost of producing extremely broad categories of documents, including essentially every document in respondents' possession relating even tangentially to the sale or rental of videodiscs and videocassettes. See notes 4 & 5, *supra*.<sup>17</sup> In their brief before this Court (at 29-31), petitioners even suggest that they also are entitled to discovery on the antitrust allegations held insufficient by the Ninth Circuit (even though they have not sought review of the court of appeals' adverse determination) because that information might somehow shed light on respondents'

<sup>17</sup> Petitioners' document requests would have required respondents to produce hundreds of thousands of documents with no relationship at all to petitioners' antitrust claim. For example, the requests encompass each and every license agreement with a video retailer or rental business located anywhere in the world, as well as all of the documentation underlying those agreements. In addition, production and distribution agreements relating to hundreds of motion pictures; labor agreements; and contracts with individual actors and other artists that contain profit participation clauses would have been included, because these agreements frequently address the allocation of royalties for video sales and rentals. Similarly, all video licenses to libraries, schools, airplanes, and ships were encompassed within petitioners' broad demand. See generally 9/18/85 Tr. 14-15.

subjective motivation. Any party contemplating resort to the judicial process to vindicate his rights would be deterred from filing suit if his adversary could, simply by filing a counterclaim, impose burdens of this magnitude.

In sum, imposing liability on the basis of subjective motive alone is suspect under the First Amendment. The difficult constitutional issues presented by such an approach provide more than sufficient grounds for requiring proof of objective unreasonableness as a prerequisite for holding a lawsuit to be a "mere sham."<sup>18</sup>

b. *The difficulty of assessing intent.* An entirely subjective standard is flawed for another reason beyond its tendency to chill the filing of legitimate lawsuits. That standard is unacceptable because it would not focus antitrust liability on the class of lawsuits that are "mere sham[s]."

To begin with, the Court in *Noerr* distinguished "business activity" from "political activity" (365 U.S. at 137).

<sup>18</sup> Petitioners appear to assert (Br. 15) that First Amendment concerns need not be considered in fashioning the appropriate standard for identifying a "mere sham" because, "[i]f a party's subjective intent is indifferent to the government outcome \* \* \*, the party itself has rendered the Constitution and its protections irrelevant." That simplistic assertion ignores the consistent thrust of this Court's First Amendment jurisprudence. It is settled, for example, that libelous statements are not directly protected by the Free Speech Clause (see *Bose Corp. v. Consumers Union of United States, Inc.*, 446 U.S. 485, 504 (1984)), but this Court has repeatedly held that—in order to prevent the chilling of nonlibelous speech—the Constitution prescribes the standard for distinguishing between protected and unprotected speech. *E.g., id.* at 505 (de novo review of trial court determination); *New York Times Co. v. Sullivan*, *supra* (proof of "actual malice" required to recover damages for libel of public figure). So too here, constitutional concerns must be considered in crafting the sham standard. That is especially true because the Court is not simply interpreting the First Amendment, but rather construing the Sherman Act so as to steer clear of imposing, even tangentially, a significant burden on constitutional interests.

To say that what appears to be a lawsuit is not really a lawsuit at all, but is instead mere "business activity," requires more than a showing of bad motive. A suit is nothing more than business activity—in no sense an effort to obtain government action—only when there also is proof that the suit is objectively different from a "real" lawsuit, because, for example, it lacks any reasonable basis or involves fraud. Petitioners' contention that a successful lawsuit may be equated with "business activity" would penalize the prosecution of legitimate claims. That is precisely what *Noerr, California Motor Transport*, and *Bill Johnson's* sought to prevent.

Moreover, a pure subjective motive standard would be ineffective in practice even if it could somehow be justified as a matter of legal theory. Courts and commentators have repeatedly recognized that wholly intent-based standards are extremely unreliable means of identifying situations where the imposition of antitrust sanctions is appropriate. A monopolization claim, for example, must be based on an "objectively anticompetitive act," because proof of "bad intent" provides little assistance in distinguishing anticompetitive behavior from procompetitive conduct. *Olympia Equipment Leasing Co. v. Western Union Telegraph*, 797 F.2d 370, 379-380 (7th Cir. 1986), cert. denied, 480 U.S. 934 (1987); see also 3 P. Areeda & D. Turner, *Antitrust Law* ¶ 626 (1978); *Rural Telephone Service Co. v. Feist Publications, Inc.*, 957 F.2d 765, 769 (10th Cir. 1992), petition for cert. filed, No. 91-1872 (May 18, 1992); *Ocean State Physicians Health Plan v. Blue Cross & Blue Shield*, 883 F.2d 1101, 1113 (1st Cir. 1989), cert. denied, 494 U.S. 1027 (1990).

In the context of predatory pricing claims, most courts have used objective standards—evidence of market power and of the relationship between prices and costs—rather than relying on evidence of intent. *A.A. Poultry Farms, Inc. v. Rose Acre Farms, Inc.*, 881 F.2d 1396, 1401-1402 (7th Cir. 1989), cert. denied, 494 U.S. 1019 (1990); *Barry*

*Wright Corp. v. ITT Grinnell Corp.*, 724 F.2d 227, 232 (1st Cir. 1983) (Breyer, J.). The *Barry Wright* court, for example, recognized that its standard would bar liability for some strategic pricing behavior that "economists have identified \* \* \* as potentially harmful" (724 F.2d at 233), but concluded that an objective approach was appropriate because a rule permitting liability in such circumstances would sweep in procompetitive pricing as well. "Rules that seek to embody every economic complexity and qualification may well, through the vagaries of administration, prove counter-productive, undercutting the very economic ends they seek to serve." *Id.* at 234; see also *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 594 (1986) ("mistaken inferences in cases such as this one are especially costly, because they chill the very conduct the antitrust laws are designed to protect").

Here too, the risk of an erroneous finding of liability—and the consequent imposition of treble damages for suits not even brought for an improper purpose, much less violative of the antitrust laws—would be extremely high.<sup>19</sup> A jury would be required to distinguish permissible intent (the desire to injure rivals through the outcome of the litigation) from unlawful motive (injuring rivals through the litigation process). These two purposes closely resemble one another, and it is likely to be difficult to decide on which side of the line a case falls on the basis of what will almost certainly be circumstantial evidence.

<sup>19</sup> Thus, as one commentator has noted, lower courts eager to catch every possible "bad" lawsuit have opened the way to condemnation of *Noerr*-protected behavior. Klein, *Strategic Sham Litigation: Economic Incentives in the Context of the Case Law*, 6 Int'l Rev. L. & Econ. 241, 250 (1986) ("[t]he case law on predatory litigation has been preoccupied with mopping up false negatives, while simultaneously cracking open the windows and doors for false positives").

In addition, many cases will involve evidence of mixed motivation: although victory in the lawsuit might have been the plaintiff's primary goal, there may well be evidence that the plaintiff was not overly concerned about the expense that the litigation process imposed on its rival. Cf. *Noerr*, 365 U.S. at 143 (referring to such mixed motivation). Subjective intent is an inherently unreliable legal standard precisely because it "is often a jumble of mixed impulses, even if we succeed in identifying the particular human being(s) whose intention is relevant." P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1c, at 24; see also Balmer, *Sham Litigation and the Anti-trust Laws*, 29 Buffalo L. Rev. 39, 68 (1980) (an exclusively subjective standard will "involve courts in confusing questions of a plaintiff's motive for bringing a particular suit").<sup>20</sup>

It is unrealistic to expect (cf. *City of Columbia*, 111 S. Ct. at 1351 n.5) that "citizens of the vicinage will be able to tell the difference between" well-grounded lawsuits pursued with enough indifference to their outcome to call them "mere shams" and well-grounded lawsuits pursued with enough genuine desire to succeed to give them protection. But petitioners contend in this Court for a regime of law that requires just that. Cf. *Monsanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752, 763 (1984)

<sup>20</sup> The difficulty in "identifying the particular human being(s) whose intention is relevant" in a corporate setting would create even more problems. If one executive vice-president wanted to win the lawsuit but another wanted to bleed the rival by imposing legal expenses, whose intent controls? Does the intent of a company's president matter more than that of its general counsel, even if the president merely rubber-stamps the general counsel's recommendations regarding the initiation of litigation? In cases involving multiple, similarly situated plaintiffs, each of whose intent is clear, a purely subjective focus could have even stranger consequences. If one plaintiff genuinely wants to win but the other plaintiff asserting the same legal rights wants to harm a rival, has one but not the other committed an antitrust violation by engaging in identical conduct?

(rejecting proposed antitrust standard because it "disregarded[ed] th[e] danger" of "deter[ring] or penaliz[ing] perfectly legitimate conduct").

This Court in *Allied Tube* criticized a proposed explication of the sham exception on the ground that it provided "no real 'intelligible guidance' to courts or litigants." 486 U.S. at 508 n.10. In *City of Columbia*, the Court rejected as "impracticable" a proposed conspiracy exception to *Noerr*. 111 S. Ct. at 1355. Petitioners' standard based entirely on subjective motive suffers from the flaws identified in those cases and should meet the same fate.

c. *Discovery abuses*. An entirely intent-based standard would also "complicate[] litigation. Lawyers rummage through business records seeking to discover tidbits that will sound impressive (or aggressive) when read to a jury. Traipsing through the warehouses of business in search of misleading evidence both increases the costs of litigation and reduces the accuracy of decisions." A.A. *Poultry Farms*, 881 F.2d at 1402. See also *Harlow v. Fitzgerald*, 457 U.S. 800, 817 (1982) ("[j]udicial inquiry into subjective motivation . . . may entail broad-ranging discovery"); *Blue Chip Stamps v. Manor Drug Stores*, 421 U.S. 723, 741 (1975). Every plaintiff would argue, as petitioners do here, that it is entitled to discovery in order to obtain support for its contention.

That discovery will not be narrowly focused, but rather will extend as broadly as possible. That is certainly what petitioners attempted to do. See notes 4 & 5, *supra*. Indeed, their document demands were nothing short of astounding, seeking broad categories of documents having nothing to do with the copyright infringement dispute, including records relating to activities outside the United States. The district court several times recognized that petitioners' demands were "much too broad." 3/24/86 Tr. 4; see also 9/18/85 Tr. 16; pages 7, 28-29, *supra*. Petitioners' position thus threatens—purportedly in the name of deterring and punishing unjustified and

costly litigation—to require every antitrust counterclaim to endure the exact kind of protracted and unnecessary proceedings that this Court condemned in *Matsushita Electric Industrial Co. v. Zenith Radio Corp.*, *supra*.

Even when the discovery requests are more focused than those propounded in this case, they are likely to impose significant burdens on antitrust defendants confronted with claims of sham litigation. Much of the documentary evidence assessing the strength of the underlying lawsuit will be covered by the attorney-client privilege and attorney work product doctrine. The antitrust defendant will be required to choose between maintaining the confidentiality of its privileged documents and defending against the antitrust claim. One court has indicated that that option may not even be available to antitrust defendants because, upon a *prima facie* showing under that court's subjective standard for determining whether litigation is a "mere sham," privileged material can be discovered under the crime-fraud exception to the attorney-client privilege. *In re Burlington Northern, Inc.*, 822 F.2d 518, 525, 533-534 (5th Cir. 1987), cert. denied, 484 U.S. 1007 (1988). That conclusion—although obviously wrong—shows the dangers inherent in the path down which petitioners invite this Court to go.

The antitrust defendant's inability to obtain dismissal without first undergoing discovery also would have the perverse effect of encouraging baseless antitrust claims. *Lupia v. Stella D'Oro Biscuit Co.*, 586 F.2d 1163, 1167 (7th Cir. 1978) ("the statutory private antitrust remedy of treble damages affords a special temptation for the institution of vexatious litigation"), cert. denied, 440 U.S. 982 (1979). A company sued by a competitor would have an incentive to respond immediately with an antitrust counterclaim asserting that the initial claim was a sham. Possibly, the threat of treble damages and intrusive discovery would coerce the plaintiff in the initial action into withdrawing its claim or agreeing to an unfair settlement. The defendant at least would be able to obtain

broad discovery, possibly including privileged materials assessing the very legal claim at issue in the initial suit. See Klein, *Strategic Sham Litigation: Economic Incentives in the Context of the Case Law*, 6 Int'l Rev. L. & Econ. 241, 249 (1986) ("[a]s Sherman Act suits claiming sham litigation become easier to win, an incentive is created for the targets of legitimate suits to claim that such suits are sham. One might call these sham-sham suits. This will tend to chill the filing of legitimate suits against competitors, and effectively deny them access to the courts").<sup>21</sup>

This Court has in other contexts fashioned substantive legal rules in order to prevent such abuses. In *Blue Chip Stamps*, a case involving the scope of the private action implied under Section 10(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78j(b), the Court observed that "[t]he prospect of extensive deposition of the defendant's officers and associates and the concomitant opportunity for extensive discovery of business documents, is a common occurrence in this and similar types of litigation." 421 U.S. at 741. The liberal discovery provisions of the

<sup>21</sup> The antitrust counterclaims in this case are illustrative of these concerns. Here petitioners alleged that the copyright infringement suit was part of a conspiracy among respondents to monopolize and restrain the retail sale and rental of videodiscs. J.A. 38. The precise factual and legal premise for such an assertion, however, is elusive at best. Despite petitioners' vague and unsupported suggestions to the contrary (*e.g.*, Pet. Br. 4 n.3, 5), respondents do not compete in either the video or the video equipment retail market. Nor was there any allegation below that respondents had conspired with Spectradyme, Inc.—which is simply one of the dozens of entities licensed to transmit or exhibit respondents' copyrighted films—to restrain or eliminate competition in videodisc sales or rentals. Hence, on its face, the original lawsuit by respondents as copyright owners to enjoin allegedly unlicensed performances of their films by an entity with whom they did not compete is far removed from the type of conduct the Court had in mind when it described the "mere sham" exception as "nothing more than an attempt to interfere directly with the business relationships of a competitor." *Noerr*, 365 U.S. at 144.

Federal Rules of Civil Procedure may, the Court recognized,

permit[] a plaintiff with a largely groundless claim to simply take up the time of a number of other people, with the right to do so representing an *in terrorem* increment of the settlement value, rather than a reasonably founded hope that the process will reveal relevant evidence.

*Ibid.* The Court declined to expand the class of plaintiffs entitled to sue under Section 10(b) because to do so "would appear to encourage the least appealing aspect of the use of the discovery rules." *Ibid.* Here, rejection of petitioners' entirely subjective standard is warranted in order to prevent the same harmful result.

d. *Common law analogies.* Requiring a showing that the challenged lawsuit was objectively reasonable also is consistent with common law doctrine that addresses some of the same concerns as the "mere sham" exception to *Noerr*. A defendant can be liable for malicious prosecution only if the underlying lawsuit was brought without probable cause; proof that the lawsuit was brought with an improper motive is not sufficient. *Dinsman v. Wilkes*, 53 U.S. (12 How.) 389, 401-402 (1851); *Restatement (Second) of Torts* § 674(a) (1977); W.P. Keeton, D. Dobbs, R. Keeton & D. Owen, *Prosser and Keeton on the Law of Torts* § 119, at 871 (5th ed. 1984) [hereinafter *Prosser and Keeton*]; *id.* § 120, at 893; Note, *Limiting the Antitrust Immunity for Concerted Attempts to Influence Courts and Adjudicatory Agencies: Analogies to Malicious Prosecution and Abuse of Process*, 86 Harv. L. Rev. 715, 727-728 (1973).<sup>22</sup>

<sup>22</sup> Justice Kennedy's concurring opinion in *Wyatt v. Cole*, *supra*, recognizes the requirement of proof of lack of probable cause, but goes on to state that, in an "exceptional case," evidence that the tort defendant did not believe he had probable cause to institute the initial lawsuit—even though a reasonable person *would* have believed

The abuse-of-process tort also has traditionally required proof of objective misconduct. The elements of the tort are "first, an ulterior purpose, and second, a wilful act in the use of the process not proper in the regular conduct of the proceeding." *Prosser and Keeton* § 121, at 898. As one commentator has explained, the plaintiff must prove "that the defendant instituted the litigation with the purpose of achieving a 'collateral' objective, and that he committed a specific act—other than those acts incidental to the normal use of the court or agency—

the suit was justified—could establish the absence of probable cause. 60 U.S.L.W. at 4387. See also *id.* at 4388 n.2 (Rehnquist, C.J., dissenting) ("relying on the subjective belief \* \* \* is clearly exceptional. I see no reason to base our decision \* \* \* on the exceptional common law case") (citation omitted). That does not weaken the support for an objective standard in the *Noerr* context.

To begin with, as Justice Kennedy observed, the rule permitting proof of lack of probable cause on the basis of the tort defendant's irrational belief was and is applied only rarely; it also has been rejected by some courts, including this Court, and criticized by commentators. See *Director General v. Kastenbaum*, 263 U.S. 25, 27-28 (1923) (discussing proof of probable cause in context of wrongful arrest tort; "[t]he question is not whether [the defendant] thought the facts to constitute probable cause, but whether the court thinks they did"); *Sheldon Appel Co. v. Albert & Oliker*, 765 P.2d 498 (Cal. 1989) (rejecting subjective approach); *Prosser and Keeton* § 119, at 877 (disagreeing with this principle on ground it is "inconsistent with the traditional test of probable cause"); Dobbs, *Belief and Doubt in Malicious Prosecution and Libel*, 21 Ariz. L. Rev. 607 (1979).

Moreover, there is no reason that tort law should be imported wholesale into the Sherman Act, which "does not purport to afford remedies for all torts committed by or against persons engaged in interstate commerce." *Hunt v. Crumboch*, 325 U.S. 821, 826 (1945). The considerations that enter into this Court's construction of the Sherman Act are quite different from those that led a few 19th-century expositors of the common law to advance the controversial proposition that malice could prove the absence of probable cause. The common law, for example, involves neither the automatic trebling of damages and awarding of attorneys' fees nor the massive discovery associated with antitrust cases.

directed at attaining that objective." Note, *supra*, 86 Harv. L. Rev. at 732. The requirement of "proof of specific conduct taken to achieve [the impermissible] objective limits the dangers of inquiry into \* \* \* subjective purpose." *Ibid.* (footnote omitted). In this context as well, therefore, "bad purpose alone is insufficient." *Prosser and Keeton* § 121, at 898.<sup>23</sup>

e. *The inadequacy of petitioners' justifications.* Petitioners never even attempt to demonstrate that their wholly subjective standard accords with the policies underlying *Noerr*. The bulk of their argument consists of unsupported quotations from opinions of courts of appeals purportedly agreeing with their position. See, e.g., Pet. Br. 21-22, 23-25, 28. The few substantive assertions that petitioners do make are wholly devoid of merit.

Petitioners first observe (Br. 22-23) that it is possible for a meritorious lawsuit to be brought for the purpose of harming a competitor. The question here, however, is whether it is appropriate to impose treble-damages liability for the filing of an objectively reasonable lawsuit in view of the resulting heavy burden on claims brought for legitimate reasons. The Court in *Bill Johnson's* answered that question by reference to the very First Amendment interests implicated here. It concluded that, even though an objectively reasonable lawsuit might be brought for the purpose of retaliation, the Labor Board should not be permitted to enjoin the lawsuit unless it was objectively unreasonable. Petitioners have not supplied a single reason

<sup>23</sup> *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 471 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983), indicates that bad purpose alone is sufficient to establish an abuse of process. The court relied on *Prosser*, which—as the above text indicates—actually states the contrary proposition, and a state court decision that also holds to the contrary. *Holiday Magic, Inc. v. Scott*, 282 N.E.2d 452, 455 (Ill. App. Ct. 1972) (abuse of process requires proof of "[s]ome act in the use of the legal process not proper in the regular prosecution of the proceedings").

why a different result should obtain under the antitrust laws.<sup>24</sup>

Next, petitioners quote (Br. 25) the Fifth Circuit's statement in *In re Burlington Northern, Inc.*, 822 F.2d at 529 n.8, to the effect that "the difficulty of inquiring into intent" does not justify an objective standard. That court did not support its conclusory assertion with any analysis and did not even consider the chilling effect on legitimate petitioning activity that would result from such a standard. As we have shown, a wholly subjective standard is difficult to apply and, moreover, chills legitimate petitioning activity.<sup>25</sup>

Petitioners also rely (Br. 26) on a passage from *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466, 471 (7th Cir. 1982), cert. denied, 461 U.S. 958 (1983), analogizing a sham claim to an abuse-of-process suit and stating that, "[i]f abuse of process is not constitutionally protected, no more should litigation that has an improper anticompetitive purpose be protected, even though the plaintiff has a colorable claim." There are a number of flaws in that analogy. First, as we have discussed (at 37-38), abuse of process *does* have an objective element; prosecuting a lawsuit with an improper motive is not enough to give rise to liability.<sup>26</sup> Second, as the foregoing

<sup>24</sup> Moreover, as we discuss below (at pages 44-45), an empirical analysis of the reported decisions addressing claims of sham litigation reveals that no court has ever held an objectively reasonable lawsuit to be a sham. The sham claims hypothesized by petitioners as a matter of economic theory simply have not been found to exist in practice.

<sup>25</sup> Petitioners further suggest (Br. 28) that the lower courts have not had difficulty applying a subjective standard. But even the *Burlington Northern* court, on whose decision petitioners place great reliance, characterized the determination as "a difficult task." 822 F.2d at 528.

<sup>26</sup> In addition, the analogy to abuse of process ignores the fact that treble damages and attorneys' fees are not an automatic consequence of tort liability.

quotation makes clear, the *Grip-Pak* court proceeded on the erroneous assumption that *Noerr* protection extends only to constitutionally protected activity. In fact, *Noerr* is a statutory construction case (see pages 18-19, *supra*), in which the Court did *not* make the doctrine coextensive with the protections of the First Amendment. Third, *Grip-Pak* antedated this Court's decision in *Bill Johnson's*, which provided important guidance concerning the meaning of *Noerr* in the litigation context. The *Grip-Pak* court, for example, did not even consider the chilling effect on legitimate claims of an entirely subjective standard. For these reasons, *Grip-Pak*'s discussion of the appropriate dimension of the sham inquiry is neither persuasive nor an accurate reflection of this Court's *Noerr* jurisprudence. See also *Handler & De Sevo*, *supra*, 6 Cardozo L. Rev. at 36 ("it is difficult to conceive of an opinion more at war with *Noerr* than *Grip-Pak*").

Finally, petitioners criticize (Br. 27) a *purely* objective standard on the ground that it would penalize suits based on innovative legal theories. That argument is a red herring. We contend, and the court of appeals held, that proof of *both* objective unreasonableness *and* improper subjective motive is required. Innovative legal claims need not be unreasonable. But even if an innovative legal theory were held unreasonable, the antitrust defendant would be liable only if the plaintiff also prevailed on the motive prong of the sham standard. The two elements of the test work together to protect against erroneous imposition of liability. The wholly subjective standard proposed by petitioners, by contrast, provides no protection whatever against erroneous treble-damages awards because it turns solely on an inherently unreliable inquiry into intent.

In sum, there are a number of considerations weighing strongly in favor of an objective component of the "mere sham" test and none weighing against it. This Court should uphold the court of appeals' determination

that an antitrust plaintiff asserting that a lawsuit is a sham must show that the underlying lawsuit was objectively unreasonable as well as that the suit was brought for improper motive.

**C. Respondents' Copyright Suit Was Not A "Mere Sham" Because The Claim Was Not Baseless.**

Petitioners deny that the "mere sham" standard contains any objective component; they have made no effort to argue to this Court that the court of appeals, although properly endorsing *an* objective component, erred by labeling that component as "baselessness." Nor could they. The court of appeals' test properly reconciles the relevant interests.<sup>27</sup>

Of course, the court of appeals did not hold that the only way an antitrust plaintiff may satisfy the objective component of the sham inquiry is to prove that the underlying claim was not reasonably justified. That court recognized that serious misrepresentations during the course of litigation also would be sufficient to establish objective unreasonableness, but noted that petitioners had not alleged such misconduct. Pet. App. 11a. Petitioners also do not argue that the present case involves any of the other objective misconduct cited in *California Motor Transport*—flagrant abuses in the litigation process; a pattern of baseless or unsuccessful suits directed against petitioners; or misconduct amounting to a "denial of access" to the judicial forum. See page 21, *supra*. When none of these other objective factors is present, we submit, the underlying claim can be a sham only if it lacked a reasonable basis.

<sup>27</sup> The court of appeals correctly observed (Pet. App. 15a-16a) that determining whether the underlying suit was baseless is an issue of law for the court. Cf. *Stewart v. Sonneborn*, 98 U.S. 187, 194 (1879) (in a malicious prosecution action, whether particular facts amount to probable cause is a question for the court; the jury's role is limited to resolving any disputes about the underlying facts).

Because “[m]any entirely reasonable claims or defenses are lost” (P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1e, at 30) and “one must not penalize the assertion of novel legal claims” (*id.* at 31), permitting a reasonably grounded but unsuccessful suit to serve as the basis for a sham claim would create an intolerable chill on legitimate claims. The court below properly observed: “Such a holding would erode the first amendment right to petition \* \* \* by imposing the risk of treble damages for initiating a suit based on a well-founded, but untested, legal theory.” Pet. App. 14a-15a (citation omitted); accord Balmer, *supra*, 29 Buffalo L. Rev. at 61 (“in order to err on the side of protecting first amendment values, the standard for challenging sham suits as antitrust violations should be relatively high”).

When the suit in question involves no litigation misconduct, there is no objective benchmark that provides a satisfactory alternative to the reasonableness test. Allowing every *unsuccessful* lawsuit to be subject to an antitrust counterclaim would chill the bringing of entirely legitimate lawsuits and could make the “mere sham” exception swallow the *Noerr* rule.<sup>28</sup> Trying to

<sup>28</sup> The Court in *Bill Johnson's* indicated that, where the initial lawsuit is unsuccessful, the NLRB may find an unfair labor practice if the lawsuit was instituted for retaliatory purposes. 461 U.S. at 747. That situation is entirely different from the present case because a private antitrust claim would pose a far greater threat to the plaintiff in the original action—and therefore would have a much more significant chilling effect—than the unfair labor practice proceeding at issue in *Bill Johnson's*. First, the Labor Board is a government enforcement agency, not a private plaintiff. Because the NLRB exercises prosecutorial discretion, but private plaintiffs do not, there is considerably less threat of meritless unfair labor practice claims than of meritless private antitrust claims based on an initial lawsuit. Second, the Labor Board can impose only equitable remedies such as a cease and desist order or, in some circumstances, backpay or reimbursement of legal expenses. 29 U.S.C. § 160. The much heavier burden under the antitrust laws—mandatory treble damages and attorneys’ fees—will inevitably produce a much greater

assess the costs and benefits of particular litigation likewise would mire the courts (and factfinders) in subjectivity and would deter legitimate initial lawsuits while inviting meretricious counterclaims.<sup>29</sup>

For these reasons, commentators have concluded that the reasonable basis test is the appropriate objective component of the sham standard in a case such as this one. P. Areeda & H. Hovenkamp, *supra*, ¶ 203.1e; Handler & De Sevo, *supra*, 6 Cardozo L. Rev. at 30-31, 40, 52-53, 55; Balmer, *supra*, 29 Buffalo L. Rev. at 56, 68; see also R. Bork, *supra*, at 358-359 (describing unprotected sham activity as either making “deliberate misrepresentations to \* \* \* tribunals” or pressing “baseless claims for the ulterior purpose of wreaking economic injury upon a competitor”).

In at least one other context involving behavior in the face of legal uncertainty, this Court has recognized that

chilling effect. See pages 26-29, *supra*. In view of the greater chilling effect posed by the threat of a private antitrust action, stronger protection is required in order to avoid deterring the prosecution of legitimate claims. The Court should therefore look to the reasonableness rule it has applied to alleviate the chilling effect of other private damages actions. See page 44, *infra*.

<sup>29</sup> One court has suggested that the sham determination should depend on whether the costs of the litigation to the antitrust defendant outweighed the benefits that would be gained by prevailing in court, discounted by the probability of success. *Grip-Pak*, 694 F.2d at 472. But that test is not objective. The antitrust plaintiff would surely demand broad discovery relating to the antitrust defendant’s assessment of the costs, benefits, and probability of success of the underlying suit. And determination of these questions would be as murky an enterprise for a jury as divining a company’s subjective motive. For example, it may be no easy thing to decide what a victory would have been worth. This is especially true when, as in the present case, a party brings potentially precedent-setting litigation involving the impact of new technology on preexisting legal rights. In sum, this test would simply substitute a different unmanageable standard for the subjective test proffered by petitioners. It should be rejected for that reason.

the proper way to avoid chilling desirable conduct, and to avoid litigation-provoking inquiries into subjective intent, is to inquire whether the challenged actions were objectively reasonable in light of the existing state of the law. See *Harlow v. Fitzgerald*, 457 U.S. at 817-819 (government official may be subjected to personal damages liability for official acts that are unconstitutional only if his conduct was objectively unreasonable; reasonableness standard vitiates chilling effect of potential liability so that officials are free to exercise their legitimate authority); cf. *United States v. Leon*, 468 U.S. 897 (1984) (objective reasonableness standard prevents overdeterrence of police behavior governed by uncertain legal standards). And, as we have discussed (at 36), the same rule applies to malicious prosecution claims. The "breathing room" necessary to avoid chilling of meritorious claims can be provided only by a standard that turns on the reasonableness of the underlying suit.

Finally, there is no evidence that a reasonableness standard would alter to any significant degree the ability of truly injured parties to vindicate their rights under the antitrust laws. We have surveyed all of the reported decisions involving the "mere sham" principle that are available on WESTLAW.<sup>30</sup> Every one of the comparatively few sham claims that have succeeded involved an underlying action that either was baseless or involved misrepresentations or some other form of flagrant abuse in the litigation process. Although the lower courts vary in what they say *might* constitute sham litigation, no court has in fact made an ultimate finding of sham when the underlying lawsuit was neither baseless nor abusive. A reasonableness standard therefore will not harm antitrust victims; it will simply eliminate unjustified litigation—and the consequent chill on legitimate claims.

<sup>30</sup> The search was NOERR "CALIFORNIA MOTOR" & SHAM in the FATR-ALL database.

See Klein, *Predation in the Courts: Legal Versus Economic Analysis in Sham Litigation Cases*, 10 Int'l Rev. L. & Econ. 29, 39 (1990) ("the policy problem, if one exists, is not that consistent economic arguments fail but that economically weak claims appear to win [i.e., survive motions to dismiss] too often").

When all is said and done, it is not proper—as a matter of precedent, policy, or logic—to classify a reasonable lawsuit as a "mere sham." The copyright action here was a reasonable lawsuit. Petitioners conceded as much in the court of appeals. Pet. App. 15a. The court of appeals' determination that the infringement action was not a sham should therefore be affirmed by this Court.

### CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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JUNE 15, 1992